

**ASSOCIATED INDUSTRIES CHINA, INC.  
AND SUBSIDIARIES**

**Consolidated Financial Statements**

**December 31, 2012 and 2011**

**(With Auditors' Report Thereon)**



安侯建業聯合會計師事務所

KPMG

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Independent Auditors' Report

The Board of Directors  
Associated Industries China, Inc.

We have audited the consolidated balance sheets of Associated Industries China, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, which reflect assets amounting to NT\$29,885 thousand and NT\$18,243 thousand, constituting 2.69% and 1.79% of the consolidated totals, as of December 31, 2012 and 2011, respectively, and total revenues amounting to NT\$108,708 thousand and NT\$101,577 thousand, constituting 16.96% and 14.21% of the consolidated totals, for 2012 and 2011, respectively. The financial statements of these subsidiaries were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants". Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the aforementioned reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Associated Industries China, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Taipei, Taiwan (Republic of China)  
March 19, 2013

The accompanying consolidated financial statements are intended only to present the consolidated financial position, consolidated results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

December 31, 2012 and 2011  
(expressed in thousands of New Taiwan dollars)

Assets	2012	2011	2012	2011	2012	2011
Amount	Amount	Amount	Amount	Amount	Amount	Amount
%	%	%	%	%	%	%
<b>Current assets:</b>						
Cash and cash in banks (note 4)	\$ 837,643	86,887	9	-	-	16
Financial assets measured at fair value through profit or loss – current (notes 5 and 14)	-	3,259	-	-	-	-
Notes and accounts receivable, net (note 6)	62,447	72,845	7	83,005	86,428	9
Other financial assets – current (note 16)	1,121	115,015	11	107,487	180,233	18
Inventories, net (note 7)	158,636	172,243	17	190,492	433,612	43
Prepayments and other current assets (note 12)	13,108	15,012	1	-	-	-
	<u>1,072,955</u>	<u>465,261</u>	<u>45</u>	<u>-</u>	<u>124,583</u>	<u>12</u>
<b>Property and equipment (notes 8 and 16):</b>						
Land	11,976	11,976	1	71	4,871	-
Buildings	3,759	3,759	-	190,563	563,066	55
Machinery and research equipment	1,046	706	1	460,874	460,874	45
Molding equipment	10,827	106,203	10	-	-	-
Leased assets	916	82,822	8	709	709	-
Other equipment	12,105	16,791	2	507,243	(145,466)	(14)
Revaluation increment	-	419,030	41	507,952	(144,757)	(14)
Less: accumulated depreciation	40,629	641,287	63	(47,763)	(37,489)	(4)
	<u>(19,461)</u>	<u>(157,321)</u>	<u>(15)</u>	<u>(47,763)</u>	<u>178,856</u>	<u>18</u>
	<u>21,168</u>	<u>483,966</u>	<u>48</u>	<u>921,063</u>	<u>457,484</u>	<u>45</u>
<b>Intangible and other assets:</b>						
Deferred income tax assets – noncurrent (note 12)	509	44,608	4	-	-	-
Deferred expense and others (notes 8 and 16)	16,994	26,715	3	-	-	-
	<u>17,503</u>	<u>71,323</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 1,111,626</u>	<u>1,020,550</u>	<u>100</u>	<u>1,111,626</u>	<u>1,020,550</u>	<u>100</u>
<b>Liabilities and Stockholders' Equity</b>						
<b>Current liabilities:</b>						
Short-term loans and commercial paper payable (note 9)	-	-	-	-	-	-
Notes and accounts payable	-	-	-	-	-	-
Accrued expenses and other current liabilities	-	-	-	-	-	-
<b>Long-term liabilities:</b>						
Provision for land value increment tax (note 8)	-	-	-	-	-	-
Other liabilities:	-	-	-	-	-	-
Deposits received (note 8)	-	-	-	-	-	-
<b>Total liabilities</b>	<u>71</u>	<u>190,563</u>	<u>17</u>	<u>460,874</u>	<u>460,874</u>	<u>45</u>
<b>Common stock (note 11)</b>	<u>460,874</u>	<u>460,874</u>	<u>41</u>	<u>460,874</u>	<u>460,874</u>	<u>45</u>
<b>Retained earnings (note 11):</b>						
Legal reserve	-	-	-	-	-	-
Retained earnings (Accumulated deficits)	-	-	-	-	-	-
<b>Equity adjustments:</b>						
Cumulative translation adjustments	-	-	-	-	-	-
Unrealized revaluation increments (note 8)	-	-	-	-	-	-
<b>Total stockholders' equity</b>	<u>(47,763)</u>	<u>(47,763)</u>	<u>(4)</u>	<u>(47,763)</u>	<u>(37,489)</u>	<u>(4)</u>
<b>Commitments and contingencies (note 17)</b>	<u>(47,763)</u>	<u>(47,763)</u>	<u>(4)</u>	<u>(47,763)</u>	<u>178,856</u>	<u>18</u>
	<u>921,063</u>	<u>921,063</u>	<u>83</u>	<u>921,063</u>	<u>457,484</u>	<u>45</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 1,111,626</u>	<u>1,020,550</u>	<u>100</u>	<u>1,111,626</u>	<u>1,020,550</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Consolidated Statements of Income**

**Years ended December 31, 2012 and 2011**

**(expressed in thousands of New Taiwan dollars, except net income per share)**

	<b>2012</b>		<b>2011</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Operating revenue:</b>				
Sales Revenue	\$ 642,446	100	718,567	100
Rent revenue	16,429	3	19,439	3
Less: sales returns and allowances	<u>17,959</u>	<u>3</u>	<u>23,047</u>	<u>3</u>
<b>Net operating revenue</b> (note 8)	640,916	100	714,959	100
<b>Operating cost</b> (notes 7 and 9)	<u>416,354</u>	<u>65</u>	<u>452,979</u>	<u>63</u>
<b>Gross profit</b>	<u>224,562</u>	<u>35</u>	<u>261,980</u>	<u>37</u>
<b>Operating expenses</b> (note 19):				
Selling expenses	146,162	23	164,926	23
Administrative expenses	108,272	17	57,349	8
Research and development expenses	<u>5,493</u>	<u>1</u>	<u>5,191</u>	<u>1</u>
	<u>259,927</u>	<u>41</u>	<u>227,466</u>	<u>32</u>
<b>Operating income (loss)</b>	<u>(35,365)</u>	<u>(6)</u>	<u>34,514</u>	<u>5</u>
<b>Non-operating income and gains:</b>				
Interest income	1,487	-	1,442	-
Gains on sale of property and equipment (note 4)	752,508	118	19	-
Net gain on valuation of financial instruments (notes 5 and 14)	-	-	4,735	1
Others (note 8)	<u>523</u>	<u>-</u>	<u>715</u>	<u>-</u>
	<u>754,518</u>	<u>118</u>	<u>6,911</u>	<u>1</u>
<b>Non-operating expenses and losses:</b>				
Interest expense	5,027	-	22,240	3
Foreign currency exchange loss, net	12,115	2	5,342	1
Impairment loss (note 3)	11,334	2	-	-
Net Loss on valuation of financial instruments (notes 5 and 14)	783	-	-	-
Others	<u>840</u>	<u>-</u>	<u>546</u>	<u>-</u>
	<u>30,099</u>	<u>4</u>	<u>28,128</u>	<u>4</u>
<b>Net income before income tax</b>	689,054	108	13,297	2
<b>Income tax expenses</b> (note 12)	<u>36,345</u>	<u>6</u>	<u>6,551</u>	<u>1</u>
<b>Consolidated net income (attributable to parent company's shareholders)</b>	\$ <u>652,709</u>	<u>102</u>	<u>6,746</u>	<u>1</u>
			<b>Before</b>	<b>After</b>
			<b>income tax</b>	<b>income tax</b>
<b>Basic net income per share</b> (New Taiwan dollars) (note 13)	\$ <u>14.95</u>	<u>14.16</u>	<u>0.29</u>	<u>0.15</u>
<b>Diluted net income per share</b>	\$ <u>14.29</u>	<u>13.54</u>		

See accompanying notes to consolidated financial statements.

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Consolidated Statements of Changes in Stockholders' Equity**

**Years ended December 31, 2012 and 2011**  
(expressed in thousands of New Taiwan dollars)

	<b>Common stock</b>	<b>Legal reserve</b>	<b>Retained earnings (Accumulated Deficits)</b>	<b>Cumulative translation adjustments</b>	<b>Unrealized revaluation increments</b>	<b>Total</b>
<b>Balance on January 1, 2011</b>	\$ 460,874	709	(152,212)	(39,276)	154,262	424,357
Consolidated net loss for 2011	-	-	6,746	-	-	6,746
Foreign currency translation adjustments	-	-	-	1,787	-	1,787
Unrealized revaluation increments	-	-	-	-	24,594	24,594
<b>Balance on December 31, 2011</b>	<u>460,874</u>	<u>709</u>	<u>(145,466)</u>	<u>(37,489)</u>	<u>178,856</u>	<u>457,484</u>
Consolidated net income for 2012	-	-	652,709	-	-	652,709
Foreign currency translation adjustments	-	-	-	(10,274)	-	(10,274)
Unrealized revaluation increments	-	-	-	-	(178,856)	(178,856)
<b>Balance on December 31, 2012</b>	<u>\$ 460,874</u>	<u>709</u>	<u>507,243</u>	<u>(47,763)</u>	<u>-</u>	<u>921,063</u>

See accompanying notes to consolidated financial statements.

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**Years ended December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollars)**

	2012	2011
<b>Cash flows from operating activities:</b>		
Consolidated net income	\$ 652,709	6,746
Adjustments to reconcile net income to consolidated net cash provided by operating activities:		
Depreciation and amortization	16,710	20,243
Change in allowance for doubtful accounts	844	655
Decrease (increase) in inventories	14,006	(46,485)
Change in allowance for inventory valuation loss and obsolescence	(399)	(159)
Gain on sale of property and equipment	(752,508)	(19)
Decrease (increase) in notes and accounts receivable	9,554	(24,733)
Decrease in prepayments and other current assets	1,426	10,022
Decrease (increase) in other current financial assets	113,894	(114,777)
Decrease in deferred income tax assets	36,199	5,889
Increase (decrease) in notes and accounts payable	(3,423)	53,841
Increase (decrease) in accrued expenses and other current liabilities	(69,989)	135,613
Others	<u>15,379</u>	<u>(2,860)</u>
<b>Cash provided by operating activities</b>	<u>34,402</u>	<u>43,976</u>
<b>Cash flows from investing activities:</b>		
Additions to property and equipment	(3,906)	(23,954)
Increase in pledged time deposits	-	744
Net proceeds from sale of property and equipment (excluding land value increment tax and related costs of \$130,270)	898,610	-
Others	<u>(4,835)</u>	<u>(3,275)</u>
<b>Cash provided by (used in) investing activities</b>	<u>889,869</u>	<u>(26,485)</u>
<b>Cash flows from financing activities:</b>		
Decrease in short-term loans and commercial paper payable	(166,951)	(13,049)
Decrease in deposits received	<u>(4,800)</u>	<u>(40)</u>
<b>Cash used in financing activities</b>	<u>(171,751)</u>	<u>(13,089)</u>
Foreign currency translation adjustments	<u>(1,764)</u>	<u>1,878</u>
Net increase in cash and cash equivalents	750,756	6,280
Cash and cash equivalents at beginning of year	<u>86,887</u>	<u>80,607</u>
Cash and cash equivalents at end of year	\$ <u>837,643</u>	\$ <u>86,887</u>
<b>Supplementary disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ <u>5,027</u>	<u>22,299</u>
Income tax	\$ <u>24</u>	<u>23</u>
<b>Cash paid for additions to property and equipment:</b>		
Additions to property and equipment	\$ 1,149	22,204
Decrease in payables for purchase of property and equipment	<u>2,757</u>	<u>1,750</u>
	\$ <u>3,906</u>	<u>23,954</u>
<b>Supplementary disclosure of operating and investing activities not affecting current cash flows:</b>		
Inventories transferred to deferred expenses	\$ <u>-</u>	<u>114</u>
Property and equipment transferred to idle assets	\$ <u>-</u>	\$ <u>1,247</u>
Property and equipment transferred to deferred expenses	\$ <u>6,738</u>	<u>-</u>

See accompanying notes to consolidated financial statements.

# ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(expressed in thousands of New Taiwan dollars, unless otherwise specified,  
with US dollars and Euros expressed in thousands)

### (1) Organization

Associated Industries China, Inc. ("AIC") was incorporated as a company limited by shares on May 18, 1978, in the Republic of China. The major business activities of AIC are the research, development and sale of LCD monitors, related components and real estate rental business.

AIC established a subsidiary, Global Maritime Finance Co., Ltd. ("GMF"), which was incorporated under the laws of the British Virgin Islands, in September 2001. GMF merged with GMF Liberia on September 24, 2001. The main activity of GMF is investing in equity securities. As of December 31, 2012, AIC owned 100% of GMF's issued common stock, amounting to US\$9,161.

AG Neovo International Ltd. ("AG Neovo International") was incorporated in the British Virgin Islands on March 30, 2002. The main activity of AG Neovo International is investing in equity securities. As of December 31, 2012, GMF owned 100% of AG Neovo International's issued common stock, amounting to US\$480.

AG Neovo Technology Corp. ("AG Neovo USA") was incorporated in the U.S.A. on December 29, 1999. The main activities of AG Neovo USA are the import and sale of LCD monitors. As of December 31, 2012, GMF owned 100% of AG Neovo USA's issued common stock, amounting to US\$1,000.

AG Neovo Technology B.V. ("AG Neovo B.V.") was incorporated in the Netherlands on November 6, 2000. The main activities of AG Neovo B.V. are the import and sale of LCD monitors. As of December 31, 2012, AIC owned 100% of AG Neovo B.V.'s issued common stock, amounting to EUR 2,000.

AG Neovo Investment Co., Ltd ("AG Neovo Investment") was incorporated in the British Virgin Islands on January 3, 2012. The main activity of AG Neovo International is investing in equity securities. As of December 31, 2012, GMF owned 100% of AG Neovo International's issued common stock, amounting to US\$350.

AG Neovo Technology (Shanghai) Corporation ("AG Neovo Shanghai") was incorporated in the People's Republic of China (PRC) on June 28, 2012. The main activities of AG Neovo Shanghai are the import and sale of LCD monitors. As of December 31, 2012, AG Neovo Investment owned 100% of AG Neovo Shanghai's issued common stock, amounting to US\$350.

As of December 31, 2012 and 2011, the numbers of employees hired by AIC and consolidated subsidiaries were 66 and 65, respectively.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### (2) Summary of Significant Accounting Policies

The consolidated financial statements of AIC have been prepared in the local currency and in Chinese. These consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

The consolidated financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles and practices generally accepted in the Republic of China. The significant accounting policies and measurement bases adopted in preparing the accompanying consolidated financial statements are summarized as follows:

##### (a) Reporting entities of the consolidated financial statements and basis of consolidation

For equity investees over which AIC has a controlling investment, AIC accounts for them based on the equity method. In addition, AIC prepares consolidated financial statements by quarter.

As of December 31, 2012 and 2011, the details of the subsidiaries included in the consolidated financial statements and AIC's direct and indirect percentage of ownership were as follows:

Name of subsidiary	2012.12.31 Percentage of ownership (%)	2011.12.31 Percentage of ownership (%)
GMF	100%	100%
AG Neovo B.V	100%	100%
AG Neovo International	100%	100%
AG Neovo USA	100%	100%
AG Neovo Investment	100%	- (Note1)
AG Neovo Shanghai	100%	- (Note1)

Note1 : The company was incorporated in 2012.

The consolidated financial statements include AIC and all companies mentioned above (jointly called the Group). All significant inter-company transactions and unrealized gains or losses from such transactions have been eliminated in the consolidated financial statements. AIC accounts for the difference between the cost of the investment and the amount of underlying equity in net assets of an investee according to amended SFAS No. 5 "Long-Term Investments under Equity Method".

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(b) Accounting estimation**

The preparation of financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates regarding matters that are inherently uncertain. The actual results may differ from management's estimates.

**(c) Foreign currency transactions and translation**

The Group's reporting currency is the local currency. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates on that date. The resulting unrealized exchange income (loss) from such translations is reflected in the accompanying consolidated statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into NT dollars at the foreign exchange rates ruling at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange income (loss) from such translations is reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange income (loss) from such translations is recorded as a separate component of stockholders' equity.

The reporting and functional currency of the subsidiaries included in the consolidated statements is the local currency. The foreign currency financial statements are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. Stockholders' equity translated at historical rates with the exception of the beginning balance of retained earnings which is carried over from the previous year, and revenues, costs and expenses, which are translated at the weighted-average exchange rates during the reporting period. Translation differences resulting from translation of the financial statements into New Taiwan dollars are recorded as foreign currency translation adjustments, a separate component of stockholders' equity, in the accompanying balance sheets.

**(d) Distinction between current and non-current assets and liabilities**

Current assets are unrestricted cash and cash equivalents and other assets to be realized in cash, sold, or consumed (prepaid items) within 12 months of the balance sheet date. Current liabilities are obligations to be paid or settled within 12 months of the balance sheet date. All other assets or liabilities are classified as non-current.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(e) Impairment of assets**

The Group assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. The Group recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Group reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Group assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

**(f) Financial assets measured at fair value through profit or loss**

Financial instruments of the Consolidated Company are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. Except for effective hedging derivative financial instruments, all financial derivatives are included in this category. Changes in fair values are charged to current operations. Subsequent measurement is at fair value, and changes in fair value are recognized as current income or loss. Financial assets purchased or sold as trade practices are recognized by using the trade-date accounting.

**(g) Notes and accounts receivable, and other receivables**

Notes and accounts receivable are the creditors' rights from selling goods or rendering services. Other receivables are the receivables provided from non-operating income.

Notes and accounts receivable, and other receivables are measured at amortized cost. The Consolidated Company considers evidence of impairment for notes and accounts receivable, and other receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has incurred but not yet identified. Notes and accounts receivable, and other receivables that are not individually significant are collectively assessed for impairment by grouping together notes and accounts receivable, and other receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against notes and accounts receivable, and other receivables.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

When determining the amount of impairment loss, the estimated future cash flow will include all the collateral involved and related insurance recoverable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(h) Derivative financial instruments and hedges

The derivative financial instruments held by the Group are for hedging the risk of changes in foreign currency exchange rates and interest rates resulting from operational, financial and investment activities. Under the Group's policy, the purpose of the derivative financial instruments is hedging. The derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

(i) Inventories

The cost of inventories is those necessary expenditures incurred in bringing each item of inventory to its useable condition and location. The cost of inventories is based on the weighted-average-cost principle. Inventories are stated at the lower of total cost or total net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. Inventories are measured at the lower of cost or net realizable value item by item.

(j) Non-current assets held for sale

Non-current assets are classified as "held for sale" when all of the following criteria are met: a decision has been made to sell. The assets that are available for immediate sale in their present condition are subject only to terms that are usual and customary for sales of such assets, and their sale within one year must be highly probable. Non-current assets classified as "held for sale" are measured at the lower of their book value or fair value less costs to sell. Non-current assets classified as held for sale are not depreciated, amortized or depleted.

An impairment loss is recognized for any initial or subsequent write-down of the assets to fair value less costs to sell in the income statement. A gain from any subsequent increase in fair value less costs to sell of an asset shall be recognized, but not in excess of the cumulative impairment loss that has been recognized either in accordance with SFAS No. 38 "Non-current Assets Held for Sale" or with the previous SFAS No. 35 "Impairment of Assets".

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(k) Property and equipment, idle assets and depreciation**

Property and equipment are stated at cost and can be revalued at government-declared values or indexes. Repairs and maintenance are charged to expenses as incurred; major renewals and improvements are capitalized and depreciated accordingly. Expense incurred in connection with the acquisition or construction of property and equipment is capitalized. Excluding land, depreciation of property and equipment is provided using the straight-line method over the estimated useful lives and projected production of the respective assets. When property and equipment have reached the end of their estimated useful lives but are still in use, the remaining cost is depreciated using the same method over the estimated remaining useful lives of the assets. Gains or losses on disposal of property and equipment are recorded as nonoperating gains or losses.

The useful lives of assets are summarized as follows:

Buildings: 50~60 years.

Improvement to buildings: 6~20 years.

Machinery and research equipment: 2~10 years.

Molding equipment: 1~2 years.

Other equipment: 2~10 years.

Leased assets-building: 8~35 years.

The cost, accumulated depreciation, and accumulated impairment of the assets not currently used in operations are all transferred to idle assets or other assets, and depreciated. The related depreciation expense is recorded as nonoperating loss.

**(l) Deferred expenses**

The cost of spare parts used for warranty services is amortized by using the straight-line method over two to three years.

**(m) Intangible assets**

Other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The depreciable amount of capitalized development expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. Any changes shall be accounted for as changes in accounting estimates.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Except when it forms part of the cost of a business combination, expenditure on research is recognized as an expense when it is incurred. An intangible asset arising from development shall be capitalized if, and only if, the Group can demonstrate all of the following:

- (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
  - (ii) its intention to complete the intangible asset and use or sell it.
  - (iii) its ability to use or sell the intangible asset.
  - (iv) the intangible asset will generate probable future economic benefits.
  - (v) the availability of adequate technical, financial and other resources to complete the development project.
  - (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.
- (n) Warranty liability

The Group sells its products to customers along with a warranty from one to three years. The Group accrues product warranty liabilities for warranty cost based on the estimated return rates and costs to repair.

(o) Retirement plan

AIC modified its pension plan on January 1, 2006, and a defined contribution pension plan was implemented for all employees starting from January 1, 2006. For the employees who are under the defined contribution pension plan, AIC has made a monthly cash contribution of 6% of salaries and wages to employees' individual pension fund accounts at the Bureau of Labor Insurance based on the Labor Pension Act, and the contribution was recorded as pension expenses in the accompanying consolidated statements of income.

AG Neovo B.V. has established a general pension plan for its employees with effect as of July 1, 2008. The pension plan is considered to be a defined contribution plan, and the paid pension premiums are therefore recorded as pension expense. AG Neovo USA contributes periodically on the basis of the local labor law, and such contribution is recorded as current expense. In accordance with the local regulations in the People's Republic of China (PRC), the consolidated subsidiaries, AG Neovo Shanghai in Mainland China have made a monthly cash contribution of a statutory percentage of salaries and wages to the local government and it is being recognized as current expenses individually. No official employees are hired by GMF, AG Neovo Investment and AG Neovo International for their business operations, and no pension costs and liabilities are recognized accordingly.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(p) Recognition of revenue and cost**

Sales of goods are recognized when the goods are accepted by the customers and the risks of ownership are transferred to the customers. Costs and expenses are recognized when revenue is earned.

**(q) Income tax**

The Group's income tax is calculated based on accounting income. The amount of deferred tax liabilities or assets is calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The tax effects of taxable temporary differences are recorded as deferred tax liabilities. The tax effects of deductible temporary differences, loss carryforwards, and investment credits are recognized as deferred tax assets. An allowance is provided for deferred tax assets that may not be realized in the future.

Deferred tax assets or liabilities are classified as current or noncurrent based on the classification of the asset or liability that resulted in the deferred item or, for certain transactions not directly related to an asset or liability, on the timing of recognition of the deferred item for income tax purposes.

Investment tax credits are accounted for using the flow-through method.

AIC's 10% surtax on undistributed earnings is recorded as current income tax expense after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

Pursuant to the local law of each company of the Group, income tax is reported separately by each company. The Group's income tax expenses are the aggregation of all consolidated entities' income tax expense.

**(r) Employee bonuses and directors' and supervisors' remuneration**

Employee bonuses and directors' and supervisors' remuneration based on the ROC Company Act and AIC's articles of incorporation and appropriated after January 1, 2008, are accounted for by Interpretation (96) 052 issued by the ARDF. AIC accrues an estimated amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the year of approval.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(s) Net income per share

Net income per share of common stock is based on the weighted-average number of common shares outstanding during the year. Net income per share for the prior year is retroactively adjusted for declared stock dividends from earnings, capital reserve, and for decreased capital to offset accumulated deficits.

(t) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of resources to the segment and to assess its performance for which discrete financial information is available.

### (3) Changes in Accounting Principle

- (a) Effective January 1, 2011, the Group adopted the third amended SFAS No. 34 "Financial instruments: Recognition and Measurement". In accordance with SFAS No. 34, loans and receivables originated by the Group shall apply the regulations on initial recognition, subsequent recognition and impairment. The change in accounting policy had no material effects on the Group's net income and net income per share for the year ended December 31, 2011.
- (b) Effective January 1, 2011, the Group adopted the newly issued SFAS No. 41 "Operating Segments". In accordance with SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Group determines and presents operating segments based on the information that is internally provided to the chief operating decision maker. The Standard also supersedes SFAS No. 20 "Segment Reporting." Such changes in accounting principle did not have any effect the Consolidated financial statement for the year ended December 31, 2011. The comparative information for 2011 was restated accordingly.

### (4) Cash and Cash in Banks

	December 31,	
	2012	2011
Petty cash, checking accounts and demand deposits	\$ 252,801	85,879
Time deposits	<u>584,842</u>	<u>1,008</u>
	<u>\$ 837,643</u>	<u>86,887</u>

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(5) Financial Instruments**

There are no derivative financial instruments held by the Group as of December 31, 2012. The derivative financial instruments held by the Group as of December 31, 2011 were as follows:

	<b>December 31, 2011</b>	
	<b>Book value</b>	<b>Nominal amount</b>
<b>Financial assets at fair value through profit or loss – current:</b>		
<b>Derivative financial Asset:</b>		
Forward foreign exchange contracts sold	\$ <u>3,259</u>	EUR <u>1,200</u>

The above derivative financial assets were recorded as financial assets measured at fair value through profit or loss—current.

In order to hedge the exchange rate risk, the Group signed foreign currency forward contracts with banks for the year ended December 31, 2011. The unrealized gains resulting from changes in fair value of forward foreign exchange contracts was \$3,259 for the year ended December 31, 2011.

**(6) Notes and Accounts Receivable – Non-related Parties**

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Notes receivable	\$ 715	1,482
Accounts receivable	<u>64,348</u>	<u>73,135</u>
	65,063	74,617
Less: allowance for doubtful accounts	(65)	(46)
allowance for sales discounts	<u>(2,551)</u>	<u>(1,726)</u>
	<u>\$ 62,447</u>	<u>72,845</u>

As of December 31, 2012 and 2011, the Group's notes and accounts payable were not discounted and provided as collateral. The notes and accounts receivable which are realizable within 1 year are accounted for as note discounted, and the book value is assumed to be the approximate fair value.

**(7) Inventories**

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Merchandise inventories	\$ 159,302	173,308
Less: allowance for inventory valuation loss and obsolescence	<u>(666)</u>	<u>(1,065)</u>
	<u>\$ 158,636</u>	<u>172,243</u>

(Continued)



**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011, the Group reversed allowance for inventory valuation loss and obsolescence amounting to \$399 and \$159, respectively, and recorded it as a deduction from cost of sales because the net realizable value was no longer lower than the cost after disposal of obsolete inventories. The Group does not provide inventories as collateral for its loans.

**(8) Property and Equipment and Idle Assets**

(a) Land was revalued based on the government-declared value. The revaluation was as follows:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Revaluation increments—leased assets	\$ -	419,030
Less: provision for land value increment tax	<u>-</u>	<u>(124,583)</u>
	<u>\$ -</u>	<u>294,447</u>

(b) As of December 31, 2012 and 2011, the leased assets were as follows:

	<b>2012</b>	<b>2011</b>
Cost:		
Land	\$ -	30,511
Buildings	916	52,311
Revaluation	<u>-</u>	<u>419,030</u>
Cost and revaluation	<u>916</u>	<u>501,852</u>
Less: accumulated depreciation	<u>(916)</u>	<u>(52,311)</u>
	<u>\$ -</u>	<u>449,541</u>

AIC's lease contracts are renewed periodically. Rental income for 2012 and 2011 was \$16,429 and \$19,349, respectively, and was recorded as operating revenue.

In order to activate assets and create benefits for shareholders, AIC entered into an agreement to sell leased assets, including land and building, to Chungli Bus Traffic, Inc. on September 17, 2012. The proceeds amounted to \$1,028,880 and the disposal gain amounted to \$752,508 (including reversal of provision for land value increment tax of \$124,583, realized gain on land revaluation increment of \$178,856, and deduction of the land value increment tax and related costs of \$130,270), and it is accounted for as a component of non-operating income and gains. As of December 31, 2012, the related registration procedure of transfer of ownership was completed and the above receivable was fully collected.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(c) As of December 31, 2012 and 2011, idle assets were as follows:

	2012	2011
Cost:		
Buildings	\$ 4,581	4,581
Less: Accumulated depreciation	<u>(1,579)</u>	<u>(1,371)</u>
	\$ <u><u>3,002</u></u>	<u><u>3,210</u></u>

AIC closed the Container Manufacturing Department and LCD Monitor Manufacturing Department in December 2000 and June 2003, respectively. Therefore, parts of buildings and equipment not for operating use were transferred to leased assets, and others were transferred to idle assets according to carrying values. The idle assets were stated at the lower of carrying value or net realizable value.

As of December 31, 2012 and 2011, the part of buildings with a carrying amount of \$3,002 and \$3,210, respectively, those are not for operating use was recognized as idle assets.

The Group recognized an impairment loss on the full amount of goodwill amounting to \$11,334 for the year ended December 31, 2012.

**(9) Short-term Loans**

	December 31,	
	2012	2011
Secured loans	\$ -	137,000
Short-term notes and bills payable, net	<u>-</u>	<u>29,951</u>
	\$ <u><u>-</u></u>	<u><u>166,951</u></u>
Unused line of credit	\$ <u><u>121,040</u></u>	<u><u>355,275</u></u>

For 2012 and 2011, the annual interest rates of the above short-term financing was 2% and 2%~2.15%, respectively. The pledged assets, including land and buildings are summarized in note 16.

**(10) Pension**

The net pension expense for the defined contribution pension plan for the years ended December 31, 2012 and 2011, was \$2,755 and \$2,793, respectively.

**(11) Stockholders' Equity**

(a) Common stock

As of December 31, 2012 and 2011, AIC's authorized common stock was \$2,000,000 at par value of \$10 (New Taiwan dollars) per share, and the total shares issued were 46,087,361 shares.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(b) Legal reserve**

The ROC Corporation Act stipulates that companies must retain 10% of their annual net earnings as defined in the Act until such retention equals the amount of the issued share capital. When a company incurs no loss, it may, in pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares or cash. Only the portion of the legal reserve which exceeds 25% of the paid-in capital may be distributed.

**(c) Limitation on distribution of retained earnings**

Based on AIC's articles of incorporation amended on June 12, 2012, 10% of annual net income after tax is to be set aside as a legal reserve, and then a special reserve is set aside or reversed in accordance with the laws or regulations; less than 2% of the unappropriated earnings, after deducting the legal reserve and the special reserve, is distributed as remuneration to the directors (part-time directors not included) and supervisors, and more than 10% as bonus to employees. The remaining balance and the accumulated unappropriated earnings of prior years, if any, should be distributed as dividends. The amount of dividends is determined by the board of directors and approved by the stockholders at their annual meeting. Dividends are paid in cash and/or stock from retained earnings, and the amount of cash dividends cannot be less than 10% of total dividends. However, if the cash dividend per share is less than \$0.1 (dollars), a stock dividend will be paid instead.

According to securities regulations, when there is a net debit balance of the stockholders' equity adjustment accounts, there must be an equal special reserve set aside from current net income or unappropriated earnings of prior years. When the debit balance of the stockholders' equity adjustment accounts is reversed, the corresponding amount of special reserve is permitted to be reversed back for earnings distribution.

The Company estimates the amount of employees' bonuses and directors' and supervisors' remuneration according to the ROC Company Act and the Company's articles of incorporation for the financial statements. The Company recognized a specific percentage of net income after deducting the legal reserve and special reserve as employees' bonuses and directors' and supervisors' remuneration. In the year ended December 31, 2011, the Company had an accumulated deficit, thus no employees' bonuses and directors' and supervisors' remuneration was recognized. For the year ended December 31, 2012, the employees' bonuses and the directors' and supervisors' remuneration was \$40,876 and \$8,175, respectively. The number of shares of the dividend distribution is based on the closing price of the day before the stockholders' meeting and the ex-rights and ex-dividend effects are being considered. The differences between the amount approved in the stockholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the following year.

Since AIC had a accumulated deficits as of December 31, 2011 and 2010, AIC is not required to estimate employee bonuses and directors' and supervisors' remuneration.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The earnings Appropriation for fiscal year 2012 is still subject to being determined by a meeting of the board of directors and approved in a stockholders' meeting. The related information about earnings distribution can be accessed from the Market Observation Post System after the holding of these meetings.

**(12) Income Tax**

- (a) Income tax returns are filed separately by each company of the Group.
- (b) The Company was subject to an income tax rate of 17% for the years ended December 31, 2012 and 2011. The Company is also subject to the "Income Basic Tax Act" to calculate income tax. Subsidiaries included in the Group are subject to the income tax rate applicable in the related jurisdiction. The components of income tax expense of the Group for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Current income tax expense	\$ <u>146</u>	<u>662</u>
Deferred income tax expense (benefit):		
Increase in investment loss recognized under the equity method	(1,945)	(1,460)
Increase (decrease) in valuation allowance	35,881	(214,392)
Decrease (increase) in loss carryforward	(8,874)	221,754
Decrease in provision for inventory valuation loss and obsolescence	68	27
Other	<u>11,069</u>	<u>(40)</u>
	<u>36,199</u>	<u>5,889</u>
Income tax expense	\$ <u><u>36,345</u></u>	<u><u>6,551</u></u>

- (c) The reconciliation of the differences between expected income tax expense computed at the statutory rate to the actual income tax expense for the years ended December 31, 2012 and 2011, is summarized as follows:

	2012	2011
Income tax expense calculated on pre-tax income	\$ 116,838	2,810
Tax free gain on disposal of land	(116,037)	-
Increase (decrease) in valuation allowance	35,881	(214,392)
Decrease in loss carryforward	-	151,622
Difference between prior years income tax estimation and assessed results	1,907	66,905
Other	<u>(2,244)</u>	<u>(394)</u>
Income tax expense	\$ <u><u>36,345</u></u>	<u><u>6,551</u></u>

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(d) As of December 31, 2012 and 2011, deferred income tax assets (liabilities) were as follows:

	2012	2011
Deferred income tax assets:		
Investment loss recognized under the equity method	\$ 81,113	79,168
Loss carryforward	592,280	583,406
Provision for inventory valuation loss	113	181
Other	<u>2,006</u>	<u>21,266</u>
	675,512	684,021
Valuation allowance for deferred income tax assets	<u>(674,816)</u>	<u>(638,935)</u>
	<u>696</u>	<u>45,086</u>
Deferred income tax liabilities:		
Unrealized foreign currency exchange gain	<u>187</u>	<u>-</u>
Net deferred income tax assets, net	\$ <u>509</u>	\$ <u>45,086</u>
Net deferred tax assets – current	\$ -	478
Net deferred tax assets – noncurrent	<u>509</u>	<u>44,608</u>
	\$ <u>509</u>	\$ <u>45,086</u>

(e) The tax authorities examined AIC's income tax returns for the years through 2010. However, the foreign investment loss of the AIC filed for the year ended December 31, 2007 was different from the amounts assessed by the tax authorities. The difference in foreign investment loss amounted to \$657,470. The Company disagreed with the assessment and filed a formal tax appeal. AIC received the review result on February 10, 2012. The tax authorities corrected the foreign investment loss to \$272,001. The taxable loss of \$179,250 was assessed by the tax authorities for the year ended December 31, 2007. The Company disagreed with the corrected assessment and filed another formal tax appeal. The Company ceased filing appeals after the ministry of finance rejected the appeal. The Company had recognized a valuation allowance for the deferred income tax asset arising from related income tax credits. Thus, there was no effect on the consolidated financial statements.

(f) The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against taxable income in the following ten years. AIC's estimated tax losses which could be used to offset future taxable income as of December 31, 2012, were as follows:

Year of loss	Amount of loss	Unused tax credits	Expiry year
2003	\$ 79,661 (assessed)	52,000	2013
2004	36,825 (assessed)	36,825	2014
2005	342,856 (assessed)	342,856	2015
2007	179,250 (assessed)	179,250	2017
2008	62,039 (assessed)	62,039	2018
2009	25,984 (assessed)	25,984	2019
2010	9,697 (assessed)	9,697	2020
2012	<u>44,416 (estimation)</u>	<u>44,416</u>	2022
	\$ <u>780,728</u>	<u>753,067</u>	

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

According to the US Tax Act, the assessed loss carryforward of AG Neovo USA can be used to offset against federal and state taxable income in the following twenty years. As of December 31, 2012, AG Neovo USA had unused net operating loss of about US\$9,126 and US\$7,699 for federal and state income tax return purposes, respectively, which can be carried forward through 2029.

According to Dutch Tax Act, the assessed loss carryforward of AG Neovo B.V. can be used to offset against taxable income in the following ten years. As of December 31, 2012, AG Neovo B.V. had unused net operating loss of about EUR\$9,368, which can be carried forward through 2020.

(g) AIC's imputation credit account and creditable ratio

Beginning in 1998, the corporate income tax paid at the corporate level can be used to offset the ROC resident shareholders' individual income tax. The amount of imputation credit which shareholders can claim depends on total corporate income tax paid at the corporate level. Beginning in 1998, corporations have been required to set up an imputation credit account (ICA) to keep track of the corporate income taxes paid and the imputation credit they have allocated for shareholders. In addition, the creditable ratio, which represents the imputation credit per dollar of accumulated retained earnings, shall be calculated for resident shareholders when corporations declare dividends.

The calculation of the ICA balance as of December 31, 2012 and 2011, and the creditable ratio for 2012 and 2011 were as follows:

	December 31,	
	2012	2011
Retained earnings (Accumulated deficits) from 1998	\$ <u>507,243</u>	<u>(145,466)</u>
ICA balance	\$ <u>8,282</u>	<u>8,282</u>
	2012	2011
Creditable ratio for earnings distribution to resident shareholders in the ROC	<u>1.63 % (estimated)</u>	<u>-% (actual)</u>

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(13) Net Income per Share**

Net income per share for the years ended December 31, 2012 and 2011, was computed as follows:

	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
<b>Basic net income per share:</b>				
Net income	\$ <u>689,054</u>	<u>652,709</u>	<u>13,297</u>	<u>6,746</u>
Weighted-average number of shares outstanding (thousands)	<u>46,087</u>	<u>46,087</u>	<u>46,087</u>	<u>46,087</u>
Basic net income per share (New Taiwan dollars)	\$ <u>14.95</u>	<u>14.16</u>	<u>0.29</u>	<u>0.15</u>
<b>Diluted net income per share:</b>				
Weighted-average number of shares outstanding (thousands)	46,087	46,087		
Effects of dilutive potential common stock:				
Employee bonuses that could be declared in the form of stock dividends and have not been approved by the stockholders' meeting	<u>2,129</u>	<u>2,129</u>		
	<u>48,216</u>	<u>48,216</u>		
Net income per share	<u>14.29</u>	<u>13.54</u>		

**(14) Financial Instruments Related Information**

**(a) Fair value of financial instruments**

The short-term financial instruments that the Group held were cash and cash in banks, notes and accounts receivable/payable, other current financial assets, short-term loans, commercial paper payable, accrued expenses and other current liabilities (except forward foreign exchange contracts), etc. The book value of the above-mentioned financial instruments is considered to be the fair value due to the short-term nature of these instruments, and the book value is considered to be a reasonable basis to assess the fair value.

As of December 31, 2012 and 2011, the details of fair value of financial assets and liabilities other than the financial instruments mentioned above were as follows:

	December 31, 2012		December 31, 2011	
	Book value	Fair value	Book value	Fair value
<b>Financial Assets:</b>				
Forward foreign exchange contracts	\$ -	-	3,259	3,259

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

If public quoting of financial assets and liabilities is available, then the quoted price will be the fair value. If market value is not available, an assessment method that refers to quoted prices provided by financial institutions will be used. The assumptions used by financial market traders when quoting their prices are used as reference.

- (b) The fair value of the financial instruments evaluated by the Group under public quoting or an assessment method was as follows:

	December 31, 2012		December 31, 2011	
	Public quote value	Assessment method value	Public quote value	Assessment method value
<b>Financial assets:</b>				
Cash and cash in banks	\$ 837,643	-	86,887	-
Notes and accounts receivable	-	62,447	-	72,845
Other financial assets – current	-	1,121	-	115,015
Forward foreign exchange contracts	-	-	-	3,259
<b>Financial liabilities:</b>				
Short-term loans	-	-	-	137,000
Commercial paper payable	-	-	-	29,951
Notes and accounts payable	-	83,005	-	86,428

The net gain or loss resulting from changes in values measured by using an assessment method amounted to a loss of \$783 and a gain of \$4,735 for the years ended December 31, 2012 and 2011, respectively.

- (c) Information on financial risk

- (i) Market risk

The purpose of the Group's derivative financial instrument transactions is to hedge the exchange rate risk. Therefore, the gains or losses resulting from changes in exchange rates will mostly be offset by those from the hedged item. Management believes that the related market risk is not significant.

- (ii) Credit risk

The primary potential credit risk is from financial instruments like cash, cash equivalents, and accounts receivable, etc. The Group's cash deposits are in different financial institutions. The Group manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk. Besides controlling credit limit, the Group also evaluates overall financial conditions of the customers to reduce credit risk of accounts receivable and insures significant accounts receivable.

(Continued)



**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(iii) Liquidity risk

Management believes that the liquidity risk is not significant because all obligations under signed contracts by the Group are expected to be fulfilled with its working capital and unused credit line.

The Group will have cash inflows and outflows within the periods shown below. There are no significant financing risks due to expected sufficient capital. Management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.

<b>December 31, 2011</b>			
<b>Financial instruments</b>	<b>Date</b>	<b>Cash outflow</b>	<b>Cash inflow</b>
EUR forward exchange contracts sold	January 9, 2011 ~March 7, 2012	EUR 1,200	USD 1,662

**(15) Related-party Transactions**

(a) Name of the related party and relationship

<b>Name of related party</b>	<b>Relationship with the Company</b>
The directors, supervisors, chief executive officer, and executive vice president	The Group's main management

(b) Summary of significant transactions with related party

The Group paid salaries and remuneration to the directors, supervisors, chief executive officer and executive vice president in 2012 and 2011 as follows:

	<b>2012</b>	<b>2011</b>
Salaries	\$ 20,449	12,010
Incentives	-	-
Transportation allowance	440	291
Employee bonuses	14,552	-

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(16) Pledged Assets**

As of December 31, 2012 and 2011, the book values of pledged assets were as follows:

<b>Account</b>	<b>Purpose</b>	<b>2012</b>	<b>2011</b>
Property and equipment and idle assets— land and buildings	Short-term loans and line of credit	\$ 17,379	467,295
Other-financial assets – current – pledged time deposits	Letter of credit loan performance guarantee and warranty	3	3
		\$ <u>17,382</u>	<u>467,298</u>

**(17) Commitments and Contingent Liabilities**

(a) The Group entered into operating lease agreements to lease office space and equipment. According to the contracts, the future minimum lease payments are as follows:

<b>Period</b>	<b>Amount</b>
2013.1.1~2013.12.31	\$ 7,333
2014.1.1~2014.12.31	5,228
2015.1.1~2015.12.31	3,363
2016.1.1~2016.12.31	3,250
2017.1.1~2017.12.31	<u>798</u>
	\$ <u>19,972</u>

**(18) Subsequent Events**

AIC had entered into an agreement to buy land and a building to be used as office building from a third party in January 2013. The price amount was \$118,880, and the transfer of ownership was completed.

**(19) Others**

(a) Employee expenses, depreciation expenses, and amortization expenses in 2012 and 2011, summarized according to their function, were as follows:

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	<b>2012</b>				<b>Total</b>
	<b>Cost of sales</b>	<b>Selling Expenses</b>	<b>Administrative expenses</b>	<b>Research and development expenses</b>	
Employee expenses					
Salaries and wages	-	50,142	82,851	3,834	136,827
Labor and health insurance	-	6,481	4,399	300	11,180
Pension expense	-	1,226	1,309	220	2,755
Other	-	419	473	103	995
Depreciation expenses (note)	2,601	281	1,040	73	3,995
Amortization expenses	6,740	-	1,024	23	7,787
	<b>2011</b>				<b>Total</b>
	<b>Cost of sales</b>	<b>Selling Expenses</b>	<b>Administrative expenses</b>	<b>Research and development expenses</b>	
Employee expenses					
Salaries and wages	-	45,062	33,527	2,962	81,551
Labor and health insurance	-	6,147	4,229	232	10,608
Pension expense	-	1,199	1,428	166	2,793
Other	-	457	433	81	971
Depreciation expenses (note)	6,757	396	1,924	344	9,421
Amortization expenses	5,923	209	665	5	6,802

Note: Depreciation expenses in 2012 and 2011 excluded the depreciation of leased assets and idle assets amounting to \$208 and \$319, respectively, recorded as cost of goods sold and non-operating expenses and losses. The depreciation expense for cost of sales in 2012 and 2011 deducted depreciation of molding equipment amounting to \$2,952 and \$3,701, respectively, which was allocated to subsidiaries. The amortization expense for cost of sales in 2012 deducted the amortization of molding equipment which amounted to \$1,768, and was allocated to subsidiaries.

(b) Significant impact on the foreign currency financial assets and liabilities was as follows (in thousands of New Taiwan, US dollars and Euro dollars):

	<b>December 31, 2012</b>			<b>December 31, 2011</b>		
	<b>Foreign Currency</b>	<b>Rate</b>	<b>NTD</b>	<b>Foreign Currency</b>	<b>Rate</b>	<b>NTD</b>
Financial assets:						
Monetary items –						
USD	\$ 3,177	29.04	92,256	1,264	30.275	38,255
EUR	2,665	38.49	102,578	5,944	39.180	232,895
Financial liabilities:						
Monetary items –						
USD	1,884	29.04	54,717	2,489	30.275	75,343
EUR	1,427	38.49	54,938	3,209	39.180	125,715

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (c) Reclassification

Certain accounts in the consolidated financial statements for the year ended December 31, 2011, have been reclassified to conform to the 2012 presentation. Such reclassifications do not have any significant impact on the accompanying consolidated financial statements.

## (20) Segment Information

## (a) General Information

The major business activities of the Group are research, development and sale of LCD monitors and related components and real estate rental business. The reportable operating segments based on the sales operation area are Europe, Americas, Taiwan and other.

- (b) The accounting policies of operating segments, information of reportable segment profit, reportable segment assets, reportable segment liabilities, and the evaluation base are the same as those described in note 2.

The Segment information were as follows:

	2012					Total
	Taiwan	Europe	Americas	Others	Adjustment & Elimination	
<b>Revenue</b>						
Revenue from external customers	\$ 35,320	496,594	108,708	294	-	640,916
Revenue from segments	381,843	7,096	5,356	-	(394,295)	-
Interest revenue	1,086	398	1	2	-	1,487
Total revenue	\$ <u>418,249</u>	<u>504,088</u>	<u>114,065</u>	<u>296</u>	<u>(394,295)</u>	<u>642,403</u>
Interest expense	(3,084)	(1,943)	-	-	-	(5,027)
Depreciation and Amortization	(10,850)	(5,851)	(7)	(2)	-	(16,710)
Investment gain (loss)	-	-	-	-	-	-
Asset impairment	-	-	(11,334)	-	-	(11,334)
Reportable segment profit (loss)	\$ <u>689,417</u>	<u>474</u>	<u>(11,175)</u>	<u>(1,104)</u>	<u>11,442</u>	<u>689,054</u>
<b>Assets</b>						
Long-term investments under equity method	-	-	-	-	-	-
Capital expenditures-non-current assets	-	-	-	-	-	-
Reportable segment assets	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reportable segment liabilities	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	2011					Total
	Taiwan	Europe	Americas	others	Adjustment & Elimination	
<b>Revenue</b>						
Revenue from external customers	\$ 37,861	575,521	101,577	-	-	714,959
Revenue from segments	469,691	10,708	2,232	-	(482,631)	-
Interest revenue	604	838	-	-	-	1,442
Total revenue	\$ <u>508,156</u>	<u>587,067</u>	<u>103,809</u>	<u>-</u>	<u>(482,631)</u>	<u>716,401</u>
Interest expense	(3,413)	(18,827)	-	-	-	(22,240)
Depreciation and Amortization	(13,903)	(1,501)	(12)	-	-	(15,416)
Investment gain (loss)	-	-	-	-	-	-
Asset impairment	-	-	-	-	-	-
Reportable segment profit (loss)	\$ <u>12,635</u>	<u>(11,140)</u>	<u>3,216</u>	<u>-</u>	<u>8,586</u>	<u>13,297</u>
<b>Assets</b>						
Long-term investments under equity method	-	-	-	-	-	-
Capital expenditures-non-current assets	-	-	-	-	-	-
Reportable segment assets	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reportable segment liabilities	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The amount of operating segment information is the same as the amount in the operating reports used by the entity's chief operating decision maker. The accounting policies of operating segments are the same as those described in note 2. The entity's chief operating decision maker evaluates the performance on the basis of the operating department's income before tax.

## (c) Industrial information

## 1. Production information

The Group's information about revenue from external customs was as follows:

<u>Productions</u>	2012	2011
LCD monitors	\$ 619,097	688,683
Other accessories	5,390	6,837
Rental revenue	<u>16,429</u>	<u>19,439</u>
	\$ <u>640,916</u>	<u>714,959</u>

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

2. Geographic information

The Group's sales which were presented by customer location, and the non-current assets which were presented by location, and the geographic information were as follows:

a. Revenue from external customers:

<u>Area</u>	2012	2011
Netherlands	\$ 168,570	208,824
Germany	123,423	155,769
United States	93,533	88,401
Others	<u>255,390</u>	<u>261,965</u>
	<b>\$ <u>640,916</u></b>	<b><u>714,959</u></b>

b. Non-current Assets:

<u>Area</u>	2012	2011
Taiwan	\$ 31,682	489,293
Others	<u>6,480</u>	<u>21,388</u>
	<b>\$ <u>38,162</u></b>	<b><u>510,681</u></b>

3. Sales to individual customers generating over 10% of consolidated net sales for the years ended December 31, 2012 and 2011 were summarized as follows:

	2012	2011
A Company	\$ <u>114,766</u>	<u>148,668</u>

**(21) Pre-disclosure of the adoption of International Financial Reporting Standards**

According to Rule No. 0990004943 issued by the Financial Supervisory Commission ("FSC", formerly named the Financial Supervisory Commission, Executive Yuan) on February 2, 2010, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their consolidated financial statements in accordance with International Financial Reporting Standards, International Accounting Standards, and the interpretations approved by the FSC. Due to the aforementioned amendments, the Group established a task force to monitor and execute the IFRSs adoption plan. The vice president, Mrs. Maggie Chao, is responsible for the conversion plan. The important plan items, the expected completion date, and plan progress are as follows:

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Contents of plan	Responsible department	Status of execution
<b>Assessment phase (from January 1, 2010 to December 31, 2011):</b>		
◎ Make a plan to adopt the IFRSs and set up a project team	Financing Department	Completed
◎ Compare and analyze the differences between the existing accounting policies and the accounting policies to be adopted under IFRSs	Financing Department	Completed
◎ Assess the adjustments of the existing accounting policies	Financing Department	Completed
◎ Assess the applicability of the IFRS 1-“First-time Adoption of International Financial Reporting Standards”	Financing Department	Completed
◎ Assess the adjustments of the related information technology system and internal control	Internal Audit Department and IT Department	Completed
<b>Preparation phase (from January 1, 2011 to December 31, 2012):</b>		
◎ Determine how to adjust the existing accounting policies in accordance with IFRSs	Financing Department	Completed
◎ Determine how to apply to the IFRS 1-“First-time Adoption of International Financial Reporting Standards”	Financing Department	Completed
◎ Adjust the related information technology system and internal control	Internal Audit Department and IT Department	Completed
<b>Implementation Phase (from January 1, 2012 to December 31, 2013):</b>		
◎ Test run the adjusted related information technology system	IT Department	Completed
◎ Gather information to prepare the opening balance sheets and comparative financial statements in conformity with IFRSs	Financing Department	Completed
◎ Prepare financial statements in conformity with IFRSs	Financing Department	In Progress
(b) As of December 31, 2012, the potential Significant differences of preparing the financial statements between the current GAAP and IFRSs as evaluated by the Group are listed below:		

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 1) Reconciliation of consolidated balance sheet as of January 1, 2012

	<u>ROC GAAP</u>	<u>Effect of transition to IFRSs</u>	<u>IFRSs</u>
Current assets (i)	\$ 465,261	(478)	464,783
Other assets ((i), (ii), and (iii))	<u>555,289</u>	<u>478</u>	<u>555,767</u>
<b>Total assets</b>	<b>\$ <u>1,020,550</u></b>	<b><u>-</u></b>	<b><u>1,020,550</u></b>
Current liabilities	\$ 433,612	-	433,612
Other liabilities (iv)	<u>129,454</u>	<u>-</u>	<u>129,454</u>
<b>Total liabilities</b>	<b><u>563,066</u></b>	<b><u>-</u></b>	<b><u>563,066</u></b>
Common stock	460,874	-	460,874
Retained earnings ((iv), and (v))	(144,757)	178,856	34,099
Other stockholders' equity (iv)	<u>141,367</u>	<u>(178,856)</u>	<u>(37,489)</u>
<b>Total stockholders' equity</b>	<b><u>457,484</u></b>	<b><u>-</u></b>	<b><u>457,484</u></b>
<b>Total liabilities and stockholders' equity \$</b>	<b><u>1,020,550</u></b>	<b><u>-</u></b>	<b><u>1,020,550</u></b>

## 2) Reconciliation of consolidated balance sheet as of December 31, 2012

	<u>ROC GAAP</u>	<u>Effect of transition to IFRSs</u>	<u>IFRSs</u>
Current assets	\$ 1,072,955	-	1,072,955
Other assets ((i) and (iii))	<u>38,671</u>	<u>187</u>	<u>38,858</u>
<b>Total assets</b>	<b>\$ <u>1,111,626</u></b>	<b><u>187</u></b>	<b><u>1,111,813</u></b>
Current liabilities	\$ 190,492	-	190,492
Other liabilities (i)	<u>71</u>	<u>187</u>	<u>258</u>
<b>Total liabilities</b>	<b><u>190,563</u></b>	<b><u>187</u></b>	<b><u>190,750</u></b>
Common stock	460,874	-	460,874
Retained earnings	507,952	-	507,952
Other stockholders' equity	<u>(47,763)</u>	<u>-</u>	<u>(47,763)</u>
<b>Total stockholders' equity</b>	<b><u>921,063</u></b>	<b><u>-</u></b>	<b><u>921,063</u></b>
<b>Total liabilities and stockholders' equity \$</b>	<b><u>1,111,626</u></b>	<b><u>187</u></b>	<b><u>1,111,813</u></b>

(Continued)



## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 3) Reconciliation of consolidated statement of income, for the year ended December 31, 2012

	<u>ROC GAAP</u>	<u>Effect of transition to IFRSs</u>	<u>IFRSs</u>
Operating revenues	\$ 640,916	-	640,916
Cost of sales	<u>416,354</u>	<u>-</u>	<u>416,354</u>
<b>Gross profit</b>	224,562	-	224,562
Operating expenses	<u>259,927</u>	<u>-</u>	<u>259,927</u>
<b>Operating profit</b>	(35,365)	-	(35,365)
Nonoperating income (iv)	754,518	(57,071)	697,447
Nonoperating expenses and losses	<u>30,099</u>	<u>-</u>	<u>30,099</u>
<b>Net income before income tax</b>	689,054	(57,071)	631,983
Income tax expense (vi)	<u>36,345</u>	<u>121,785</u>	<u>158,130</u>
<b>Net income</b>	\$ <u><u>652,709</u></u>	<u><u>(178,856)</u></u>	473,853
<b>Other comprehensive income:</b>			
Exchange differences on translation			(1,896)
Income tax relating to components of other comprehensive income			<u>(8,378)</u>
<b>Other comprehensive income for the period, net of tax</b>			<u>(10,274)</u>
<b>Total comprehensive income:</b>			\$ <u><u>463,579</u></u>

## 4) Explanation to the reconciliation of every differences

- (i) When the Group estimates the income tax, it should consider the investment tax credits, temporary differences, and other factors for estimating the deferred income tax assets and liabilities. According to the provisions of IFRSs, the deferred income tax assets and liabilities should be classified as non-current assets and liabilities and should be considered the right to statutory tax offset and the expected year of realization of deferred income tax assets and liabilities for reclassifying. Therefore, the deferred income tax assets amounting to \$478 was reclassified from current assets to non-current assets as of December 31, 2011. The deferred income tax assets and liabilities which were originally expressed in net amount were reclassified as deferred income tax liabilities—non-current amounting to \$187 based on the expected length of time before realized as of December 31, 2012.
- (ii) Part of the land and buildings held by the Group were assessed as held with a purpose of earning rentals or for capital appreciation, and accounted for as rental assets, a component of property and equipment, in accordance with the ROC GAAP. The Group reclassified such assets amounting to \$449,541 as investment property on January 1, 2012.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

- (iii) As of January 1 and December 31, 2012, in accordance with IFRSs the maintenance spare for warranty which was accounted for under deferred expense in accordance with the ROC GAAP was reclassified as property and equipment amounting to \$3,829 and \$0, respectively.; the deferred cost of development which was accounted for under deferred expense in accordance with the ROC GAAP was reclassified as intangible assets, amounting to \$2,474 and \$7,589, respectively.
- (iv) The Group elected the exemption of using book value as the deemed cost to be the value of fixed assets in accordance with IFRS 1 - "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") as of January 1, 2012, the conversion date, and recalculated the land revaluation increment amounting to \$178,856 as the deemed cost in accordance with Rule No. 1000032208 issued by the Financial Supervisory Commission, Executive Yuan (FSC), and the Regulations Governing Profit-seeking Enterprises for asset revaluation on the conversion date. Therefore, the Group reclassified the unrealized land revaluation increment which was originally recognized under equity adjustments according to the ROC GAAP to retained earnings in the amount of \$178,856 on the conversion date. In addition, as of January 1, 2012, The provision for land value increment tax for revaluation increment which was accounted for under other liabilities in accordance with the ROC GAAP was reclassified as deferred tax liabilities- non-current under other liabilities, amounting to \$124,583. The Group entered into an agreement to sell this land in 2012, and the unrealized land revaluation increment which was accounted for under stockholders' equity in accordance with the ROC GAAP was reclassified as realized gain, amounting to \$178,856. The Group reclassified the unrealized revaluation increments amounting to \$178,856 to retained earnings as a result of electing the exemption from IFRS 1, and a gain on disposal of land is expected to decrease by \$178,856 in 2012.
- (v) The Group reclassified the unrealized revaluation increments amounting to \$34,099 to retained earnings as a result of electing the exemption from IFRS 1. Thus, the negative balance of retained earnings turned into positive balance at the transition date. Accordingly, a special reserve of the same amount should be set aside in accordance with Rule No. 1010012865 issued by the Financial Supervisory Commission, Executive Yuan (FSC), on April 6, 2012.
- (vi) The Group entered into an agreement to sell land in 2012. The land value increment tax amounting to \$121,785, accounted for as a reduction of gain on disposal of property and equipment in accordance with the ROC GAAP, was reclassified as current income tax expense.
- (c) According to IFRS 1, except for the optional exemptions and mandatory exceptions, first-time adopters of IFRSs should prepare their financial statements in accordance with currently effective IFRSs and make retrospective adjustments accordingly. The Group elected to use the following optional exemptions: Regarding the acquisition of subsidiaries and affiliated companies which occurred before December 31, 2011, the Group did not retrospectively restate them.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

- (d) The aforementioned assessment is based on the International Financial Reporting Standards approved by the FSC. However, the assessment result may be impacted as the FSC may issue new rules governing the adoption of IFRSs. The accounting policies selected under IFRS 1 are based on conditions at present, and the selection may change as conditions change.